# AGRICULTURAL OUTLOOK DIGEST



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ECONOMIC RESEARCH SERVICE • U. S. DEPARTMENT OF AGRICULTURE • OCTOBER 1971

## MIDWAY THROUGH FREEZE

The 90-day term of wage and price ceilings is now at the halfway mark. The assessment: Ceilings apparently are helping to hold down prices farmers pay for manufactured production items, processed feeds, and other purchased inputs, as well as family living expenses.

The freeze hasn't frozen farm prices, since raw agricultural commodities are excluded. Ceilings placed on retail prices of products processed from farm products apparently have had little effect on farm prices so far. A few possible exceptions:

• Manufacturing milk prices are making only a limited seasonal gain, possibly in part because of the freeze on butter and cheese prices, but partly because of slack demand at a time of larger milk output.

• The ceiling on processed egg products may limit prices that processors will pay for farm eggs.

• Turkeys are bumping the ceiling level. However, a recent ruling allows sellers of products with a 3-year history of seasonality to use the seasonal period of 1970 as a ceiling. This may give some classes of turkeys and fowl (mature) chickens more leeway.

## OTHER FACETS

The wage-price freeze is one facet of the Administration's new economic policies. Another is suspension of gold backing for U.S. dollars abroad and the floating of the dollar which, since mid-August, brought about some of the desired upward revaluation of currencies relative to the dollar.

Other actions crucial to the new economic thrust are just around the corner. During October, watch these developments:

• International Monetary Fund meets to orchestrate the foreign response to our demand for trade and monetary concessions.

• Possible settlement of the 2-month-old strike at 24 Pacific ports; possible strike beginning at Gulf and Atlantic ports.

• Announcement of the second phase of the new economic policies, to provide continued direction after the November 12 freeze expiration date.

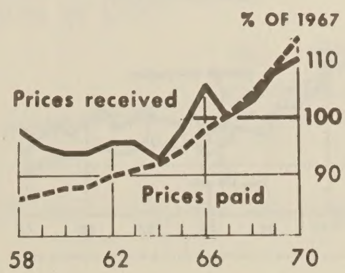
• Action by Congress on tax relief in the form of larger personal deductions and more liberal tax credits on investment in new plant and equipment.

## WHY THE FREEZE?

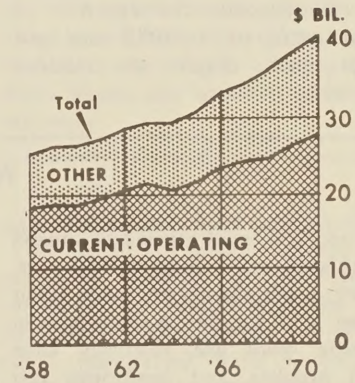
The farm sector of the economy provides a fine illustration of the need for the current price and wage ceilings.

Farmers are losing the price race. Average farm prices have been rising since 1964—except for a setback in 1967—mainly on the strength of higher livestock prices. But, in the past 4 years, higher prices paid for purchased inputs, wages, etc., have outrun the gain in prices received.

### U.S. FARMER'S PRICES




### FARM PRODUCTION EXPENSES




Consequently, farmers are groaning under a mountain of production expenses. By retarding further rise in prices paid, the 90-day freeze and the second-phase measures may give farmers a better chance to improve net income.

## TOBACCO IN SPIRAL

Tobacco is caught in a slowly descending spiral of production and use. Supplies are down 2 percent for the 1971/72 season, yet they still are heavy relative to the rate of tobacco use. For 1971/72, supplies are down an estimated 17 percent from the 1964 peak. Total disappearance is likely to drop further to a level 12 percent below its 1966 peak.

## FLUE-CURED SUPPLY

The season's flue-cured tobacco supply will be down 2 percent, because of a reduced crop.

Domestic use dropped over 6 percent last year, despite larger cigarette output. Use of flue-cured leaf per cigarette has been dropping around 3 percent annually for some years, because of the overall decline in leaf use per cigarette and the increased use of imported tobaccos and air-cured types. Imported tobaccos make up about 14 percent of tobacco leaf used in cigarettes, up from about 10 percent in 1960.

In the 1971/72 year, domestic use may drop a little more. Exports are expected to decline, but stay within the favorable range of the last 4 years. The United Kingdom, the big buyer, currently holds sizable stocks of U.S. tobacco and U.K. manufacturers are buying more lower priced tobacco from other exporters this season.

The carryover in 1972 may not change much, despite the reduced 1971 crop.

Burley supply is down 1 percent from the prior season and 7 percent below the record. Yet, this still adds up to 3 1/3 years of use.

Domestic use of burley in cigarettes increased a little in 1970/71, mainly on the strength of record cigarette output. But economizing will further reduce leaf requirements per cigarette this season, so domestic use of burley will do well to hold its own in 1971/72.

Growing worldwide popularity of American-type cigarette blends is increasing the world demand for burley. Even though other suppliers price their burley well below ours, exports are likely to equal 1970/71 in the upcoming shipping season. Exports account for about a tenth of total burley use.

## MORE CIGARETTES SMOKED

Total U.S. consumption of cigarettes likely will gain 2 percent in 1971, and continue up a little more in 1972. Even though retail prices are higher, more people are of smoking age and consumer spending remains very large.

Per capita use is steadying again this year, and cigarette exports may gain slightly, so consumption should continue up in 1972. Manufacturers are using some of the strike-hedge inventories built up last year; next year's output should surpass the 1970 record.

## EXPORT PROSPECTS

Unless there is a dock strike, this year's U.S. exports of unmanufactured tobacco may rise a tenth above the 510 million pounds (574 million farm-sales weight) of calendar 1970, almost equaling the 1966-69 average.

In the first half of next year, however, exports may not match the strong performance of first half 1971. Big overseas supplies of cheaper priced, foreign-grown tobacco, growing popularity of filter-tipped cigarettes, and rising U.S. tobacco prices will impede U.S. exports next year.

High quality of U.S. leaf, economic sanctions against Rhodesia, and pre-

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# WOOL PRICES AND USE FOUNDERING

Producers' wool prices and apparel use of wool are foundering this year.

Key developments are much lower apparel wool supplies, a steep drop in domestic wool use, relatively large world supplies, and low-priced raw wool imports.

With the bulk of the 1971 U.S. clip already marketed, the season average producer price is fairly well established at about a quarter a pound, a second year of serious slump. Prices in 1969 averaged 41.8 cents and last year, 35.5 cents.

Wool producers, however, continue to receive substantial help from Government payments which make up the difference between the season average price and the 1970-73 incentive level of 72 cents a pound.

## . . .SUPPLY SLIPS

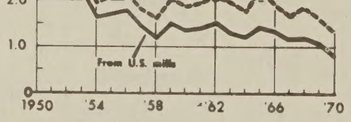
January 1 saw U.S. wool stocks decline for the second year, to 66 million pounds. Output from American sheep this year is off 4 percent to 155 million pounds, grease basis. Further, dutiable raw wool imports during January-July were about half the 60 million pounds, clean content, imported a year before.

## . . .USE SINKS

Reductions in supply, however, have been less severe than the sharp drop in wool demand.

In the past year and a half, wool use has made a particularly sharp retreat. Three recent developments seem pertinent: Military orders are off, consumers have become listless about clothing purchases, and men's suits of 100-percent polyester knit have grown quite popular.

**U.S, PER CAPITA WOOL CONSUMPTION**




● MILL CONSUMPTION PLUS WOOL EQUIVALENT OF NET IMPORTS OF APPAREL WOOL TEXTILES.

Accordingly, wool fabric output from American mills was down a fifth in 1970 and has proceeded at an even lower annual rate so far this year. Woolen fabric deliveries to the armed services, heavy in 1970, have come to a near halt. Fabric milled for men and boys' wear has been running down a fourth, and women and children's wear, off 40 percent.

Even at reduced production levels, mill output is awaiting takers. The June ratio of finished fabric stocks to unfilled orders soared to 73 percent, versus what had been considered an unusually high 43 percent in the previous June.

## . . .IMPROVEMENT POSSIBLE

Recent developments may help prices some. World wool prices this summer showed modest improvement. The current surtax on duitable-wool imports should shift some demand to domestic wools. Economic measures inaugurated in August could give clothing sales a needed boost in late 1971 and next year.

sent U.S. export payments are favorable factors in foreign trade. However, many countries are producing more or importing more from lower-cost production areas. Stocks of U.S. tobaccos remain at relatively low levels in West Germany.

The recent U.S. economic actions have improved the longer range outlook for tobacco exports. The currencies of our major customers for tobacco have increased in value in relation to the dollar. This makes our exports more attractive.

## ANATOMY OF A CIGARETTE

Last year's story of skimpier cigarettes reducing domestic tobacco use is likely to be repeated. New projections point to less and less tobacco in each cigarette.

Last year manufacturers used an estimated 1.96 pounds of leaf tobacco to make 1,000 cigarettes, 4 percent less poundage than in 1969. Projections which call for continued gains in filter-tips and technological advances in modifying tobacco volume indicate further poundage declines by 1975.

The big factor in slimming down cigarettes is economy. Farmers' tobacco prices are record high despite lagging use, and other costs to cigarette makers have increased.

Filters displace part of the tobacco column and allow use of reconstituted tobacco sheet. As filters' popularity has gained since 1950, leaf tobacco input per cigarette has dropped a fourth. Slimmer cigarettes have also gained in popularity.

Tobacco stems, scraps, and fine particles, formerly discarded, are reconstituted into sheet and cut like leaf. Sheet makes fuller use of tobacco purchased, and sells for about 20 cents a pound, versus a dollar a pound for leaf. Various estimates place the ratio of sheet to total tobacco in cigarettes between 8 and 20 percent.

## SPEND MORE FOR SMOKES

Spending for smoking, higher than ever, will go higher still in the 1970's.

Americans paid $11 1/2 billion last year for their cigarettes, cigars, and other smoking products. This represented almost 2 percent of consumer disposable income. The smoking bill included a hefty tax bill of $2.1 billion for the Federal coffers and $2.4 billion for State and local treasuries.

Compared with 2 decades earlier, there are about 30 percent more adults, but the smoking bill is 1-2/3 times higher. Actual use of tobacco products has risen in line with population, but wholesale prices have increased and State and local tax rates have soared. The Federal tax rate has stayed the same since 1951.

In the 1970's, the same trends seem likely: The volume of tobacco use inching up with or near the population trend, rising tobacco prices and manufacturing costs pushing up wholesale prices, and higher taxes. More localities will add their own charges, and rising government costs plus possible declines in per capita smoking rates mean States and localities may hike tax rates.

## HOG REDUCTION

The September 1 USDA survey of Corn Belt farms shows there are fewer market hogs in the region than a year before. Weight spreads, plus the likelihood that producers in other regions are cutting back less, suggest marketings down 2-4 percent this fall and 5-8 percent this winter, compared with last fall and winter.

Hog raisers, setting the scene now for next spring and summer, plan more cutbacks. The number of sows farrowing in September-November is an estimated 11 percent smaller than last fall, which will curtail the spring slaughter. Similarly, producers are having 11-percent fewer sows bred in preparation for summer's marketings.

The effort to trim hog output will pay off on market day. By late fall, the reduced slaughter pace is expected to lift prices $2-3 above the $15.50 November-December average last year.

With sizable reductions in output probable in the first half of 1972, prices may rise further and average well above January-June this year.

The huge feed grain crop nearing harvest will do nice things for profitability. But producers are not likely to budge from their cutback mood for months to come. The hog-corn price ratio perked up to 15.6 in August. Producers didn't start the last expansion until the ratio stayed over 20 after mid-1969.

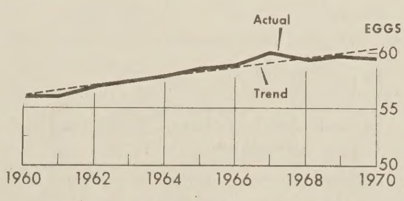
## LAYING RATE SPURS EGG OUTPUT

The daily rate of lay this July-September reached 61 eggs per 100 hens, a record for the quarter. A higher proportion of young birds is in the laying flock and use of a vaccine against Marek's disease has made for greater vigor and livability.

The high rate of lay has kept egg production large and producer prices low so far this year. Poultrymen will place fewer pullets for the rest of the year, compared with October-December 1970, but the vaccine's influence will partly counteract their cutback.

Egg output will make a limited seasonal increase this fall, but the margin of output over the 1970 level will taper off.

THIRD QUARTER RATE OF LAY*




*AVERAGE DAILY RATE OF LAY PER 100 HENS FOR JULY-SEPTEMBER.

## PRICES STRENGTHEN

Egg prices have strengthened from the lowest summer levels since 1967. Seasonally increasing demand and some easing of production relative to 1970 are benefiting the price picture, but weakness will continue as output stays above year-earlier levels and supplies of other high-protein foods remain large.

Producer prices during the balance of 1971 may average slightly below last fall's 36 cents a dozen. A few more eggs likely will be used for hatching, but egg breakers may use less.

## DAIRY OUTLOOK UP

Conditions for dairy producers may improve this fall, even though the seasonal rise in manufacturing milk prices may be limited by the wage-price freeze.

A prospective 1-percent production rise and 3-percent price gain for all of 1971 result in a 4-percent boost in gross cash receipts from dairying. The increase in receipts so far this year has been offset by rising costs, but the current price ceiling and lower feed grain prices should help slow the rise.

Feed costs have been up this year. Until recently, high-protein meals were higher priced than last year because of tight soybean and cottonseed supplies, although oil meal prices are now under a year ago. August prices for 16- percent dairy ration were up 7 percent from last year. Both feed grains and hay have been costlier.

This fall, however, a record feed crop is predicted and feed prices are falling; this will lead to increased feeding of grain concentrates per cow.

## LABOR SQUEEZE EASED

The current slack job picture dims dairymen's prospects for off-farm jobs. On the other hand, it eases the problem of finding good help in competition with other employers.

In answer to rising farm wages and tight dairy labor, farmers continue to increase production of milk for each hour of labor used. In 1970, output of milk per man-hour rose 7 percent and was more than double the 1960 rate.

The key reasons for efficiency gains are larger investment for better equipment and larger herd size, plus breeding, feeding, and management techniques that bring about larger output per cow.

## DAIRY OUTPUT, SALES, DIVERGE

Sales of dairy products are dropping while milk output is increasing. Thus USDA has had to increase support purchases of dairy products.

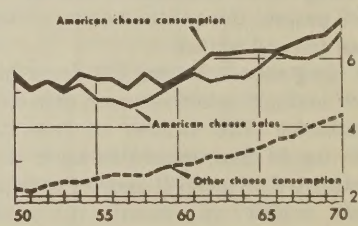
Milk output in 1971 likely will total 118½-119 billion pounds, around 1 percent higher than last year. The drop in cow numbers is small, while output per cow is up about 2 percent. Lower cost feed grains this fall, a good supply of replacement heifers, and the eased dairy labor situation indicate output may rise next year.

Reflecting production, milk used in manufacturing of dairy products may be up about 3 percent for the year to the highest level since 1964. Output of butter, cottage cheese, ice cream, and dry milk advanced in January-June, compared with these months of 1970.

Total dairy product sales (civilian, military, exports) are down, and for the year may not match last year's 109 ½ billion pounds of milk (equivalent, fat solids basis). Apparently, higher retail dairy product prices, up 3½ percent so far this year, and changing consumer preferences have offset higher consumer incomes.

Sales of whole fluid milk, butter, canned milk, and cream mixtures have lagged. But rising cheese demand has helped maintain total dairy sales. Similarly, lowfat fluid milk sales in major urban areas have been running 9 percent higher than last year and sour cream, recently gaining in popularity, has boosted total cream use for the first time in years.

### CHEESE CONSUMPTION PER CAPITA, IN POUNDS




## DAIRYMEN DO BETTER

Studies of New York and Wisconsin representative 40-cow dairy farms attest to substantial growth in income since the early 1960's. Since 1964, net farm income has more than doubled, to a level of $18-$21,000 in 1970. After allowing for a return on investment, return to operator and family labor and management on these farms in 1970 was $10-$11,000.